

Message Text

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TO SECSTATE WASHDC 0538

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

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E.O. 11652: GDS

TAGS: ETRD, RP

SUBJECT: CONSULTATIONS WITH GOP ON NON-RUBBER FOOTWEAR

REF: (A) STATE 195575, (B) STATE 200414

1. SUMMARY: INFORMAL CONSULTATIONS ON NON-RUBBER FOOTWEAR WITH GOP ON AUGUST 21 WERE FRIENDLY AND FRANK. ON U.S. SIDE JOEL SPIRO OUTLINED RECENT HISTORY OF U.S. SHOE PROBLEMS AND POINTED OUT TO GOP PANEL RECENT JUMP IN PHILIPPINE EXPORTS OF SHOES TO U.S. GOP OFFICIALS EXPRESSED SURPRISE AT LARGE INCREASE, VOWED THAT TRANSHIPMENT WOULD NOT BE ALLOWED, AND PROMISED INVESTIGATION INTO SITUATION. TONE OF DISCUSSIONS WAS INFORMAL, OPEN, AND FRIENDLY. END SUMMARY.

2. ON MORNING OF AUGUST 21, JOEL SPIRO, CHIEF OF SPECIAL TRADE ACTIVITIES IN OFFICE OF TRADE, ACCOMPANIED BY E/C COUNSELOR AND EMBOFF MET GROUP OF GOVERNMENT OFFICIALS AND PRIVATE SECTOR REPRESENTATIVES AT MINISTRY OF TRADE TO DISCUSS PHILIPPINE NON-RUBBER FOOTWEAR
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EXPORTS TO U.S. GOP SIDE WAS HEADED BY VICENTE VALDEPENAS, DEPUTY MINISTER OF TRADE; CONRADO SANCHEZ, GOVERNOR OF THE BOARD OF INVESTMENTS; AND ESMUNDO DE GUZMAN, MARIKINA SHOE COMMISSIONER. ALSO PARTICIPATING WERE REPRESENTATIVES OF A NUMBER OF SHOE FIRMS, INCLUDING THOSE FROM SHOE-MAKING TOWN OF MARIKINA AND THE BATAAN EXPORT PROCESSING ZONE, AND GOVERNMENT OFFICIALS

FROM THE MINISTRIES OF TRADE AND FOREIGN AFFAIRS, AND
BUREAU OF CUSTOMS.

3. MR. SPIRO BEGAN TWO-HOUR SESSION BY OUTLINING RECENT HISTORY OF U.S. SHOE INDUSTRY SINCE 1968, TRACING THE DECLINE IN U.S. SHOE PRODUCTION AND THE CORRESPONDING RISE IN IMPORTS. HE THEN NOTED THE TWO USITC DECISIONS OF SERIOUS INJURY, THEIR RECOMMENDATIONS FOR TARIFF AND QUOTA RELIEF, AND PRESIDENT CARTER'S SHOE PROGRAM. HE ENDED WITH EXPLANATION OF OUR OMA'S WITH KOREA AND TAIWAN EMPHASIZING IMPORTANCE OF MAKING THESE AGREEMENTS WORK AS DESIRABLE ALTERNATIVE TO MFN TREATMENT OF PROBLEM. SPIRO POINTED OUT PROBLEM AT THIS TIME OF TRANSSHIPMENT OPERATIONS WHICH COULD UNDERMINE EFFECTIVENESS OF OMA'S.

4. SPIRO THEN TURNED TO SPECIFIC CASE OF PHILIPPINE EXPORTS OF NON-RUBBER FOOTWEAR, RECITING EXPORT STATISTICS FOR FIRST SIX MONTHS OF 1978, COMPARING THEM WITH FIGURES FOR SAME PERIOD IN 1977 (WHICH INDICATED AN INCREASE OF 1643 PERCENT), AND EXPLAINING THE LEGAL OPTIONS OPEN TO U.S. UNDER TRADE ACT, INCLUDING UNILATERAL SELECTIVE ACTION, MFN, AND OMA. SPIRO STRESSED THAT HE WAS INTERESTED ONLY IN EXCHANGE OF INFORMATION AND PINPOINTING POTENTIAL PROBLEMS, AND THAT MAIN INTEREST OF U.S. WAS TO MAKE OMA'S WORK.
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5. RESPONSE OF GOP TO THIS PRESENTATION WAS MODERATE. VALDEPENAS BLANDLY POINTED OUT THAT FOOTWEAR WAS PART OF GOP'S ECONOMIC DEVELOPMENT PROGRAM, AND THAT CERTAIN LEVELS OF PRODUCTION AND EXPORT WERE DESIRED, THOUGH HE GAVE NO SPECIFICS.

6. MOST OF TALKING ON GOP SIDE WAS DONE BY GOVERNOR SANCHEZ, WHO IS KNOWN TO HAVE STRONG FEELINGS CONCERNING

DEVELOPED COUNTRY PROTECTIONISM. HE BEGAN BY NOTING IMPORTANCE OF INDUSTRIES LIKE FOOTWEAR SECTOR, WHICH EARN VALUABLE FOREIGN EXCHANGE NEEDED FOR DEVELOPMENT PROGRAMS AND ARE LABOR-INTENSIVE TO HELP ALLEVIATE EMPLOYMENT PROBLEM. HOWEVER, HE SAID, GOP WAS COMMITTED TO CFN "ORGANIC, STEP-BY-STEP" DEVELOPMENT OF INDUSTRY WITH NO "MIGHTY LEAPS FORWARD." HE MAINTAINED THE SHOE INDUSTRY IN PHILIPPINES WAS PROGRESSING, UNDER BOI EFFORTS, "CAREFULLY AND ORDERLY."

7. SANCHEZ FRANKLY ADMITTED HIMSELF "MYSTIFIED" BY

STATISTICS SHOWING RADICAL INCREASE IN EXPORTS OF SHOES TO U.S. HE SEEMED TO DISCOUNT THESE FIGURES, CALLING THEM "MINISCULE" NUMBERS WHICH DO NOT "THREATEN OR DISRUPT". ALONG THESE LINES, HE LATER CONFESSED TO CERTAIN SUSPICIONS AS TO WHERE LARGE INCREASE IN EXPORTS ORIGINATED. HE HAD NO POWER, HE CLAIMED, OF APPROVAL OR REJECTION OF INVESTMENTS IN EXPORT PROCESSING ZONE IN BATAAN.

8. FYI: THIS STATEMENT IS THINLY-VEILED REFERENCE TO HEATED BUREAUCRATIC DISPUTE BETWEEN BOI AND EXPORT PROCESSING ZONE AUTHORITY (EPZA) OVER WHO IS TO APPROVE

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INVESTMENTS IN THE ZONE. THAT POWER NOW LIES IN HANDS OF EPZA HEAD, TEODORO PENA (NOT PRESENT AT CONSULTATIONS), MUCH TO SANCHEZ' CHAGRIN. END FYI.

9. SANCHEZ DEALT WITH TRANSSHIPMENT PROBLEM IN EXPEDITIOUS MANNER. HE CLAIMED TAIWANESE MANUFACTURERS CAME TO SEE HIM WITH A PROPOSAL TO SET UP FACTORIES FOR ASSEMBLY OF IMPORTED UPPERS AND BOTTOMS FOR EXPORT TO U.S. SANCHEZ SAID HE EMPHATICALLY REFUSED THIS DEAL, PLEDGING THAT PHILIPPINES WOULD NOT BE A "QUOTA HAVEN FOR QUOTA FUGITIVES," AND THAT ONLY "SIGNIFICANT PRODUCTION" WOULD BE ENCOURAGED HERE. SANCHEZ CLAIMED MINISTER OF INDUSTRY PATERNO AND MINISTER OF FINANCE VIRATA BACK HIM ON THIS STAND, WHICH HE SAID INVOLVED THE "PRIDE" OF HIS COUNTRY. HE ADDED HOWEVER, THAT THIS VIEW WAS NOT NECESSARILY

SHARED BY ALL FACETS OF GOP, IMPLYING THAT PERHAPS EPZA DID NOT SHARE HIS PHILOSOPHY.

10. SANCHEZ ALSO CITED BOI EFFORTS TO ENCOURAGE DIVERSIFICATION OF MARKETS FOR SHOE EXPORTS, GIVING EXAMPLES OF SIX RECENTLY-APPROVED SHOE FIRMS WHO EXPORT TO NON-U.S. CONFIDENTIAL

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MARKETS.

11. CASE OF BEACHCOMBERS WAS THEN BRIEFLY DISCUSSED. BECAUSE MOST OF INCREASE IN EXPORTS TO U.S. ARE UNDER \$1.25 A PAIR, ASSUMED THAT BEACHCOMBERS REPRESENT LARGE PART OF INCREASE. BOTH SANCHEZ AND VALDEPENAS TOOK UP THIS POINT FAIRLY ENERGETICALLY, SAYING U.S. SHOULD NOT REALLY BE MANUFACTURING THIS KIND OF FOOTWEAR, AND THAT IT WAS MORE IMPORTANT TO LOOK AT WHAT WAS REALLY THREATENING U.S. INDUSTRY. SPIRO POINTED OUT THAT PLASTICS ARE EXPLICITLY INCLUDED IN USITC FINDING OF INJURY AND THAT THEY ARE PART OF OVERALL PROBLEM. HE ALSO POINTED OUT IMPORTANCE TO U.S. GOVERNMENT OF FLOOD PSYCHOLOGY THAT IS PRECIPITATED BY LARGE INCREASES IN IMPORTS OF ANY KIND OF SHOE.

12. ENDING DISCUSSION, VALDEPENAS PROMISED TO INVESTIGATE SITUATION THOROUGHLY AND TO REPORT FINDINGS TO EMBASSY. WE LEARNED FOLLOWING DAY THAT MEETING OF GOP OFFICIALS AND INDUSTRY REPRESENTATIVES WILL TAKE PLACE AUGUST 25, FOR PURPOSE OF DISCUSSING STATISTICS PROVIDED THEM BY SPIRO, AND HOW THEY IMPINGE ON INDUSTRY FACTORS SUCH AS PLANT CAPACITY AND MARKET DEVELOPMENT.

13. COMMENT: DISCUSSIONS WENT VERY SMOOTHLY AND WERE CONDUCTED ON FRIENDLY AND INFORMAL BASIS. GOP REACTION TO SPIRO'S PRESENTATION WAS MODERATE, WITH GENUINE SENSE OF SURPRISE AT THE EXTREMITY OF EXPORT STATISTICS. SANCHEZ' DENUNCIATION OF TRANSSHIPMENT OPERATIONS APPEARED SINCERE, ALTHOUGH HIS INTIMATION THAT EPZA MAY BE GUILTY IS UNLIKELY GIVEN OUR INFORMATION THAT NO SHOES UNDER \$1.25 ARE PRESENTLY BEING MADE IN THE ZONE. THAT THE GOP IS CONCERNED ABOUT PROBLEM IS REFLECTED ALSO CONFIDENTIAL

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IN FACT THAT BOTH VALDEPENAS AND SANCHEZ CHOSE TO PARTICIPATE KNOWING MID-LEVEL NATURE OF TALKS. SUCH HIGH LEVEL INVOLVEMENT WILL HELP ASSURE EFFECTIVE GOP MOBILI-

ZATION ON THIS ISSUE. MOST IMPORTANT CONTRIBUTION OF CONSULTATIONS WAS TO INFORM GOP OF POTENTIAL PROBLEM THAT TO DATE HAD BEEN OF LITTLE CONCERN TO HIGH-LEVEL POLICY MAKERS, PARTICULARLY OFFICIALS LIKE SANCHEZ AND PENA, WHO ARE RESPONSIBLE FOR ENCOURAGING FOREIGN INVESTMENT IN PHILIPPINES. VALDEPENAS THREE TIMES DURING MORNING MEETING AND LUNCHEON HE HOSTED AT MANILA PENINSULA HOTEL, EXPRESSED APPRECIATION TO E/C COUNSELOR FOR USG AFFORDING OPPORTUNITY TO EXCHANGE INFORMATION AND VIEWS IN THIS MANNER. EMBOFFS BELIEVE SPIRO DID SUPERB JOB OF PRESENTING RELEVANT FACTS IN IDEAL MANNER AND, WE HOPE TIME WILL PROVE, TO OPTIMUM EFFECT. MURPHY

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